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GOOD FORM: The Winning One-Page Loan Proposal

COMPANY PROFILE: How to Grow a Company and Have a Real Life, Too

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35 IDEAS YOU CAN USE

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AND MORE!

SEAT-OF-THE-PANTS SUCCESS: NICHOLAS GRAHAM, CEO OF JOE BOXER CORP.

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INC. COVER STORY

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(Photograph: Culver Pictures)

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Child-care center in Pennsylvania

COVER PHOTOGRAPH by MICHAEL GRECCO, OUTLINE

Hands On

SALES & MARKETING

Menna has helped Viteq pull bigger sales out of its hat.

SALES TRAINING

Send In the Clowns

AS ANY COMPANY THAT USES DISTRIBUTORS KNOWS, it's one thing to get them to take on your line and another to get them to sell it. Distributors' sales reps typically have many products to pitch to retailers, and as important as your line may be to you, it's just one of many to them.

Part of what determines how much of their attention your products command is how well the reps know them—which means not just what you've taught them but how much they remember. "That," says Anita Creasi, director of channel marketing at Viteq Corp., a Lanham, Md., maker of uninterruptible power supplies for computers, "is what I mean by 'mind share.' "

To help train one distributor's telephone-sales reps, Creasi hired a magician, Lisa Menna, who was paid not just to entertain but to help teach.

The 50-minute presentation opened in a darkened room. Menna materialized from a puff of smoke and did a couple *(Continued on page 121)*

▼

Lisa Menna's company, Magic Touch, is in San Francisco at 415-399-1133. For other sleight-of-hand artists, try these agencies: Bob Snodell Associates, Chicago, 708-388-1539; Magical Productions, Riva, Md., 301-721-0515; and Corporate Shuffle, Houston, 713-977-0026.

DISTRIBUTION

Using an OEM to Build Sales

WAYNE HELLMAN, CEO of Venture Lighting International, in Solon, Ohio, a maker of metal-halide light bulbs, needed to distribute his products. But an army of salespeople would be too costly; stores dealt only with major bulb manufacturers; and Venture light bulbs couldn't compete on price. So Hellman opted to distribute through original equipment manufacturers (OEMs)—in his product's case, the approximately 60 U.S. companies that make light fixtures. By using the OEMs, Venture can reach 7,000 electrical distributors through the 60 fixture makers' sales forces, who call on those accounts regularly.

Before Hellman entered the scene, light bulbs were a commodity, something fixture makers sold their fixtures with or without upon installation. Hellman had to convince them that owning a new application for the metal-halide technology was valuable. So he, along with a team of engineers and salespeople, held brainstorming sessions with the fixture makers. Bulbs were engineered from the ideas generated, and the OEMs designed fixtures to house them. Venture still uses that technique to develop new applications, and *it foots the research-and-development bill for each new bulb.*

Venture also private-labels its bulbs for two of the three major bulb manufacturers, which own more than half the market and have wide distribution systems. Hellman estimates that every 10 years he'll sell six replacement bulbs for each fixture sold by an OEM. Today 30% of Venture's $30 million in sales comes through OEMs, and Venture holds almost 25% of the metal-halide-bulb market. ***—Teri Lammers***

IN THIS SECTION

SEND IN THE CLOWNS
Getting your sales reps' attention

USING AN OEM TO BUILD SALES
Forge better relationships

RESOURCES: USED TRADE-SHOW BOOTHS

SELLING TO GRAY AMERICANS
Consumers aren't getting any younger

CALL A NEIGHBOR
Use your customers to sell

Edited by Tom Richman

PHOTOGRAPH WILLIAM MERCER McLEOD

(SALES TRAINING, from page 119)
of tricks to set up Creasi's entrance. Then they alternated: Creasi presented the lecture and the usual transparencies; Menna performed stunts to illustrate Creasi's points. They'd worked out their routine during several weeks of phone calls and rehearsed it the night before.

"Left-brain and right-brain access are different," says Menna. "You hear something at a technical event, and it goes into a storage space in the math side of your head. The next time somebody asks you about TWX-transfer twisted pair, you go to that storage space and try to retrieve it. But if you have a second note card, filed in the creative side of your brain, that says, 'Hey, I understand twisted pair. That was when that girl did the trick with the plastic bags, making herself into a twisty'—then you have access to both sides of your brain for the same information."

Whether you use a magician, a comedian, an artist, or any other performer, the idea is to put the information across in more than one way. " 'Sesame Street' is more interesting to kids than Miss Crabtree is," says Menna, "because it offers such a variety of input—which is kind of what I do."

Creasi's a believer. "I know it worked," she says, "because the reps say they remember—and they're selling the product." *—T. R.*

RESOURCES

Used Trade-Show Booths

ONCE, USING SOMEONE else's trade-show exhibit was as tacky as donning a stranger's wedding dress. Not now: thrifty companies are saving by buying secondhand exhibits and remodeling them.

"Used exhibits are coming into their own," says Lee Knight, publisher and editor of *Exhibitor* magazine. The best way to check one out is to see it set up. Or ask vendors for photos and a list of clients. Here are two companies that specialize in recycled exhibits:

- **Exhibit Emporium**, Newark, Calif., 800-541-9100. Showrooms in Newark, Calif., and Marlborough, Mass. Sample listing: 30-by-30-foot display with stage. Original cost: $126,000. Selling price: $27,500. Option to rent.
- **The Exhibit Registry**, Huntington Beach, Calif., 800-444-9484. Has agents around the country. Sample listing: 20-by-20-foot island with four workstations. Original cost: $30,000. Selling price: $14,200.

Also, contact manufacturers of custom exhibits in your area. Many have used properties that are in good shape. Giltspur, based in Itasca, Ill. (800-727-0069), has 16 storage facilities in cities such as Chicago, Pittsburgh, Atlanta, Phoenix, Los Angeles, Toronto, and Washington, D.C. Exhibitgroup, in Chicago (800-424-6224), has offices in areas such as Dallas, Cincinnati, New York City, and San Francisco.

Exhibitor (507-289-6556) holds workshops on buying and selling used exhibits. Cost: $85.

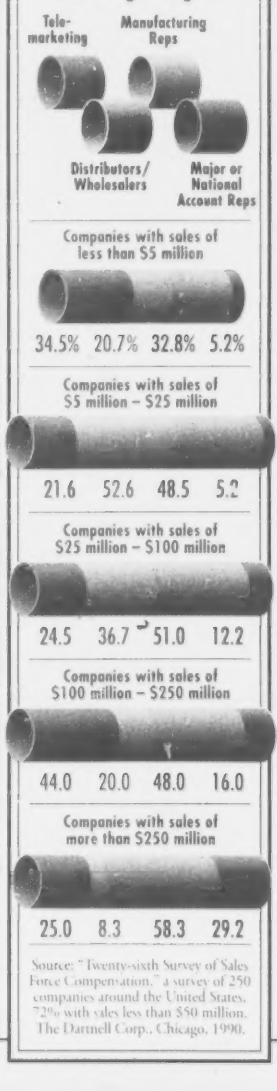
—Susan Greco

SALES

Alternatives to a Direct-Sales Force

Even small companies have options — especially once they pass the $5-million mark. Middling and mammoth businesses alike make heavy use of distributors and wholesalers as another way to reach the marketplace.

Percentage using . . .


Tele-marketing
Manufacturing Reps
Distributors/ Wholesalers
Major or National Account Reps
Companies with sales of less than $5 million
34.5% 20.7% 32.8% 5.2%
Companies with sales of $5 million – $25 million
21.6 52.6 48.5 5.2
Companies with sales of $25 million – $100 million
24.5 36.7 51.0 12.2
Companies with sales of $100 million – $250 million
44.0 20.0 48.0 16.0
Companies with sales of more than $250 million
25.0 8.3 58.3 29.2

Source: "Twenty-sixth Survey of Sales Force Compensation," a survey of 250 companies around the United States, 72% with sales less than $50 million. The Dartnell Corp., Chicago, 1990.

CHART: ROSS CULBERT LAVERLY & RUSSMAN INC., NEW YORK

DEMOGRAPHICS

Selling to Gray Americans

WHATEVER CONSUMER product or service your business sells, it's probably being bought by customers who are older than those you sold to 10 years ago. Jeff Ostroff, vice-president of The Data Group, in Plymouth Meeting, Pa., and director of its PrimeLife Marketing division, reminds marketers that the typical American consumer isn't getting any younger. Between 1990 and 2000, the 45-and-older population of the United States will have grown by 18 million people, and the under-45 population will have grown by only 5,000.

OSTROFF: Stop thinking of the over-50 population the way you remember your grandmother 30 years ago. Stop thinking about *ages* and think instead about *stages* of life. Stages are related to age, but they don't correspond precisely. For instance, people preparing to retire have certain needs—for financial-planning services or for different kinds of insurance or housing.

People are most likely to reach another stage—grandparenting—in their fifties, which provides a multibillion-dollar opportunity for businesses that understand that grandparents spend money differently on kids than parents do. Our national survey on grandparents showed they tend to place a high value on purchases they see as part of passing on to the youngsters some of their own knowledge and experience.

(Continued on next page)

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19-91

(DEMOGRAPHICS, from page 121)

INC.: *What will the over-50 population look for in products?*

OSTROFF: Empty-nesters of any age will look for products in smaller packages. Retirees of any age have more time and will look for ways to fill it—going back to school, traveling, or buying a franchise.

INC.: *Are we going to start seeing a lot of ads pitched to older people?*

OSTROFF: Not from smart advertisers. You *can* say in an ad that the people who will really benefit from this product are those who have a lot of experience in whatever. But if your ad talks about a product being for older people "because now that you're older, you have these new limitations," that isn't likely to be well received.

INC.: *What about retail self-service?*

OSTROFF: Hard question, because what people expect for service depends partly on their age and partly on what they're used to. For example, the automated-bank-teller machines that really bother many of today's older adults will be less bothersome to aging baby boomers. They're used to them, just as they're used to pumping their own gas.

But while we won't see the end of self-service supermarkets, we will see more emphasis on personal service. Most older consumers feel they've contributed a lot to society, so they expect to be treated respectfully and catered to. That will be especially true of the aging baby boomers, who've been catered to all their lives.

INC.: *So, figuring out what an aging population wants might be tricky?*

OSTROFF: One thing businesses, especially medium-size to small businesses, might do to help themselves stay on top of these changes is to get 50-plus consumers involved in their marketing. Employ them in sales or customer-service positions and get their feedback and advice. —*T. R.*

Jeff Ostroff's book (above), *Successful Marketing to the 50+ Consumer* (Prentice-Hall, 1989), details business opportunities and where they will be, shows how companies can market to aging consumers, and also has appendices listing agencies, organizations, and periodicals that can be great information sources.

PROMOTIONS

Call a Neighbor

GARDEN WAY, THE TROY, N.Y., MANUFACTURER OF HIGH-END Troy-Bilt rototillers and other power equipment, reaps more than one-third of its sales from catalog and print-advertising orders. But some potential buyers who don't have a Troy-Bilt retailer nearby still want to test-drive the machines. They can. Garden Way will put them in touch with a volunteer neighbor who already owns one of the company's products.

Troy-Bilt owners, apparently a cultish lot, like to brag about their toys, according to Ned Van Woert, senior vice-president for strategic planning. The company recruits them, at the time of their purchase, into its so-called Good Neighbor program by offering them a special deal on their purchase. Garden Way then lists them in the directory of the Good Neighbor program.

Of course, neither Garden Way nor any other company can control what a customer is going to tell prospects about its products. So before you recruit customers as unofficial sales aides, you'd better make sure they're ecstatic over whatever you've sold them. —*T. R.*

PHOTOGRAPH: G. PAUL HAYNES

MANAGING PEOPLE

Rosenbaum: Custom-tailored jobs raise productivity.

MOTIVATION

Etch-a-Sketch Job Descriptions

AFTER STARTING THEIR OWN COMPANY, OURTOWN Television Productions, right out of college, Steven Rosenbaum and his partner couldn't offer prospective employees the kind of salaries that local stations paid. So OurTown offered something else: jobs custom-tailored to workers' tastes. As a result, staffers made less money, but most of them loved their jobs.

Rosenbaum's accommodating approach is still manifest in almost every one of the 18 positions at his Saratoga Springs, N.Y., company. OurTown's story coordinator, for example, is also the staff welder because he told Rosenbaum he loved welding. "Steve Rosenbaum is interested in making people like working here, even if it means extending their job description," says Steve Mendes, the story coordinator/welder. "Letting me weld makes me a happier person here."

Rosenbaum spends a lot of time finding out what employees love and hate about their jobs and trying to eliminate or reduce the distasteful responsibilities. Usually that means identifying someone else in the company who's interested in the task.

Still, all employees have to do something they're not particularly fond of. And creating a perfectly tailored job for a new hire can sow dissatisfaction among employees. Rosenbaum waived a company policy and allowed a new producer-reporter to do her own voice-over recording on her stories. Before doing so, *(Continued on next page)*

LEGAL BRIEFS

Strictly Confidential

SAFEGUARDING YOUR company's innermost secrets seems a simple matter of getting employees to sign a nondisclosure agreement. But it's easy to make a misstep. And because the courts in many states are inclined to protect people's rights to pursue their own business opportunities, they may bend over backward to nullify trade-secret provisions, says Eric J. Wallach, a litigation partner at Rosenman & Colin, in New York City.

Trade-secret suits, both actual and threatened, are pervasive in technologically sensitive industries, such as software, as well as nontechnological industries, such as retail discounters. Here's how to make a trade-secret provision airtight:

1. Define as narrowly as possible what you want to protect. Whether it's proprietary customers, manufacturing processes, software, or sales formulas, make sure the information cannot be obtained through publicly available sources. If your agreement lumps together the truly proprietary with the merely ordinary, a court may view it as excessively limiting to a former employee and dismiss the whole agreement.

2. Limit the number of people who sign it. While it may seem the safest route is to have all employees pledge their secrecy, it actually makes a trade agreement less enforceable. Ask for signatures from the people you're really concerned about. "If you do it in boilerplate fashion, the court may say you, the employer, clearly haven't thought through where the sensitivity is," says Wallach.

3. Employees should enter into the agreement upon employment. The key ingredient here is that the employee must get something out of a pact. If an employer tries to impose a trade-secret provision after an employee is on board, and gives the employee nothing in return, Wallach says, the courts will strike down the provision. But asking an employee to sign an agreement when she's promoted or given a raise might work. *—E. E. S.*

IN THIS SECTION

ETCH-A-SKETCH JOB DESCRIPTIONS
Keeping employees satisfied

STRICTLY CONFIDENTIAL
Making nondisclosure agreements work

SCOUT'S HONOR?
Try Inc.*'s own honesty test*

RESOURCES: MANAGEMENT SIMULATIONS

THE SCHOOL OF HARD KNOCKS
Management-simulation programs

Edited by Ellyn E. Spragins

PHOTOGRAPH JOHN SEAKWOOD

(MOTIVATION, from page 125)
however, Rosenbaum first discussed the idea with the anchorman, who normally handles such work. The anchor OK'd it—but then three other reporters wanted to do their own voice-overs, as well. Rosenbaum asked them to come back to him in six months if they still felt strongly about it. "The easy solution would be to make an ironclad rule with no exceptions," he says. "But I look at it as having three people on staff who would like to build their skill level."

Granted, some people can get lost in this kind of environment, but the payoff for the headaches is that Rosenbaum retains many employees who could work elsewhere for better pay. He says productivity is also higher. He estimates OurTown produces TV programs with one-half to two-thirds the staff other production companies require. OurTown's revenues have spurted from $600,000 in 1989 to an estimated $1.1 million for 1991. The best part: his flexibility costs him nothing but his time and interest in keeping employees happy. Can he continue doing that as his company grows? He's working on it. *—E. E. S.*

RESOURCES

Management Simulations

FOR SMALL-COMPANY managers who want to test their management skills and learn from the experience as well as from the feedback of participants and trainers (see "Training," below) the MSP Institute (212-982-4929) suggests two of its management simulations. The first, Northward Arts Co., is itself small, with six managers and 20 employees. The other, Food Corp., is a larger company but focuses on growth issues. The Institute's programs cost about $1,000 a person.

At The Center for Creative Leadership (919-545-2800), which offers three different simulations out of its Greensboro, N.C., headquarters, The Looking Glass simulation is offered as part of a five-day program for $2,900. Though The Looking Glass is modeled after a large organization, the center says it's an appropriate simulation for small-company managers who need to be effective in influencing and communicating with people. The center also offers simulations at its offices and through licensees around the world. *—E. E. S.*

TRAINING

The School of Hard Knocks—Condensed

CALL IT THE READER'S *Digest* version of real life in the business world. Instead of spending years making mistakes in establishing and growing your company, you can enroll in a management-simulation program to accelerate your learning. In a simulation, a small group of people—usually owners or top managers of a company—run a pretend company for a few days while being observed by professional trainers.

The best-known simulation is The Looking Glass, developed by the Center for Creative Leadership, in Greensboro, N.C. There are no classrooms, lectures, or theories during the one-day simulation. Instead, the trainee executives, who may or may not know one another beforehand, are assigned a position and given in-baskets planted with extensive information. The players can interact freely, organize themselves however they like, and make any decisions they choose.

A lengthy reflection and

(Continued on page 128)

EMPLOYEE TESTING

Scout's Honor?

IN LIEU OF STRAPPING polygraph sensors on potential employees, which is now under most circumstances illegal, some companies are administering pencil-and-paper quizzes called honesty tests. We thought the most interesting way to tell you about these integrity exams would be to conduct one with you. We'd pose questions, you'd answer, and the test publishers would grade the results. Unfortunately, being an honesty-test publisher doesn't mean you have to be particularly hon . . . shall we say, forthcoming about test answers. The publishers nixed the idea.

So instead, we'll conduct ground-breaking research here. You answer a few questions we've gleaned from some actual honesty tests, and we'll tell you how you compare with other *Inc.* readers. So click on that 600-watt light bulb and tell us everything . . .

AGREE, DISAGREE, OR UNDECIDED:

1. It's OK to take something from a company that's making too much profit.

2. Stealing is just a way of getting your fair share.

3. If I'm passed over for a promotion, it's OK to take things from work to get back at the company.

4. When a store overcharges its customers, it's OK to change price tags on merchandise.

YES OR NO:

5. Do you always tell the truth?

6. Did you ever think about committing a burglary?

7. If you could get into a movie without paying and not get caught, would you do it?

8. Is it OK to get around the law if you don't actually break it?

ILLUSTRATION: HAL MAYFORTH

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THE MAGAZINE FOR GROWING COMPANIES

MANAGING PEOPLE

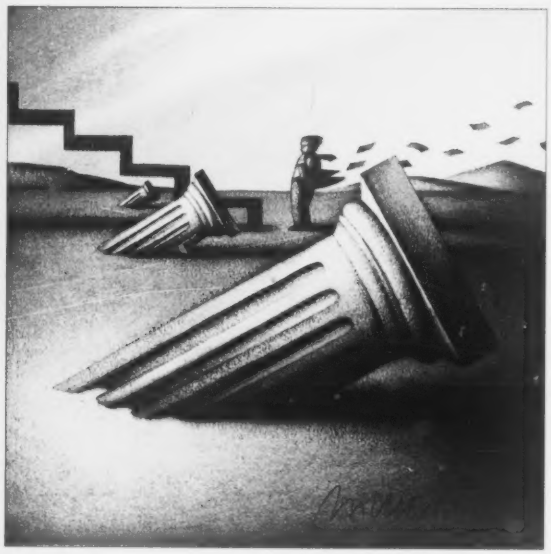
(TRAINING, from page 126)
discussion period follows the simulation. The trainers give feedback on the strategic choices the role players made for the company, describing, for example, other courses of action they might have taken. The analysis is complemented by players' input on one another's personal style. That's often the most eye-opening part of a simulation experience. "It doesn't happen very often in the context of day-to-day business that you'll go up to someone and say, 'I'd like you to tell me the things I do that you find helpful and those you wish I'd change,' " says Ron Clark, a management consultant in Norwalk, Conn., who attended his first simulation five years ago. There, Clark discovered he wasn't conveying his vision clearly to the people he worked with. "Most feedback in companies is goal-related. It doesn't look at the behavior that helped you achieve those goals or got in the way of accomplishing them."

New York City–based MSP Institute, which has also developed simulation models, finds certain groups of characteristics are particularly observable—and therefore trainable—through simulation:

- **General managerial skills:** delegating, organizing, and planning.
- **Group dynamics:** autocratic versus participative; open to information sharing or closed; striving to achieve versus just squeaking by.
- **Power:** how it is seized, used, magnified.
- **Strategic skills:** acting as an entrepreneurial force, finding and overcoming threats, and dealing with adversity.

Remember, while simulations are designed to be like the real world, they're not a perfect imitation. What's more, the quality of and knowledge gained during any simulation depends greatly upon who the other participants are. Still, says Clark, "it's one of the few things you can do to get feedback. When you're out there on your own, you never know exactly how you're coming across." —*E. E. S.*

BANKING & CAPITAL



REGULATION

When the Feds Take Over

SINCE 1988 MORE THAN 635 INSTITUTIONS INSURED by the Federal Deposit Insurance Corp. (FDIC) have been shut down, sending thousands of borrowers into a frenzy. Forget panic—if you really want to weather this storm, here are some first steps to take:

• **Study all your loan agreements to verify compliance.** The goal of the FDIC once its people arrive isn't to be your banker but to get cashed out as rapidly as possible. "Your objective," says Ken Smith, president of Massachusetts Business Development, in Boston, "especially if you're a small borrower, is to ensure that it happens on your terms." Once regulators are in the bank, plan on being held accountable for every letter of your loan agreements—even fine print your former lending officer shrugged off. Check, too, to see that the loans are actually written the way you think they are. Many long-term mortgages, offers John Troop, a business consultant in Tulsa, are in fact written as five-year notes with balloon payments at the end.

• **Get a good lawyer.** As long as you're in compliance, neither the FDIC nor the bank that might buy your loans has a legal right to alter the terms. On term loans, your best strategy may be to sit tight. Working-capital loans, however, are more precarious. Don't be surprised if regulators look for ways to wind down credit lines fast—going so far as to seize deposits and collateral to pay off debts. Since hardball tactics like those can impair your ability to meet basic obligations (such as payroll) and can raise liability questions, get experienced legal advice right away to sort out what you have to do *(Continued on next page)*

LETTERS OF CREDIT

Looking over the Banker's Shoulder

IF YOU'RE EXPORTING products overseas, odds are, you're relying on letters of credit through which the customer's bank ensures that the invoice will be paid once the terms of the sale are met. If you want to minimize the transaction costs and psychic toll, you'll have to stay on top of the game yourself. Here are three things to keep in mind:

• **Even tiny discrepancies can gum up the works.** The most common discrepancy, says Virginia Rehberg of International Transactions, an export-finance consulting firm in Boston, is shipping later than you specify. It's also the most serious, because unlike other snags that might be corrected with a call to the negotiating bank, a late ship date requires the overseas buyer's bank to issue an amendment. Buyers will readily ask their banks to do this, but for a price; if a shipment is late and the buyer refuses to waive the discrepancy, that buyer might try to get you to discount the invoice by 10% or more. Be conservative about the ship date and check all documents for errors.

• **A "sight" letter of credit will help you get paid faster.** Clever overseas buyers often slip in clauses saying that payment will not occur for 60 to 180 days after the banker verifies that all the terms have been met. Don't let them. To speed up your collection, ask for a sight letter of credit; with it, you can usually be paid within three to five days of the time the banker "sights" all the paperwork required by the letter of credit.

• **Bank fees can be shifted to customers.** Banks charge different fees for different services. Normally, you pay the fees at your bank; your customer pays his. But if you make them part of the up-front negotiation, you might be able to get the buyer to pick up everything. If you can't, ask the customer for a freely negotiable letter of credit that won't obligate you to buy services from a specific bank; then shop around for the lowest fees. ***—Teri Lammers***

IN THIS SECTION

WHEN THE FEDS TAKE OVER
Protect yourself when your bank closes

LOOKING OVER THE BANKER'S SHOULDER
Using letters of credit

RESOURCE: THEY FIRE CEOS, DON'T THEY?

BANK WATCHING
Rating the rating services

STRIKING A BETTER DEAL
A noncash acquisition sweetener

Edited by Bruce G. Posner

ILLUSTRATION: ADAM NIKLEWICZ

(REGULATION, from page 131)
legally from what the regulators say you have to do.

• **Set up a new checking account at another bank.** Some credit lines have terms that prohibit a borrower from diverting cash collections into accounts at other banks. If yours doesn't, begin moving money to another bank at once. Otherwise, you're liable to run out of cash, and you may not be able to meet payroll or pay suppliers.

• **Get to work finding a new credit source.** If you're lucky, you'll be able to get a little breathing room from the FDIC or the new bank that's entered the scene. Don't count on much. "Within a matter of days, you should have a complete package of information about your company to bring to other sources," advises Troop. But what if no one snaps at the business? Will the new guys really pull the plug? They might, Smith says, "but if you can demonstrate that you're making a good-faith effort, and you keep communicating the steps you're taking to find other sources of money, they're apt to work with you. In some cases, I've even seen them agree to term out working-capital loans by turning them from demand loans into short-term loans. But those are the exceptions."

—B. G. P.

STRATEGIC ALLIANCES

The Shape of the Deals

Now that venture capital and other sources of money are hard to shake loose, strategic alliances have become an accepted way for small companies to leverage resources. "They're no longer a fad," says Robert E. Mast, a vice-president of Venture Economics, which publishes Corporate Venturing News. *Contrary to popular perception, relatively few of these deals involve outright equity. Most are built around some other interest.*

How 1990 deals stacked up*

Source: Venture Economics, Needham, Mass.
*Based on analysis of 1,470 alliances; does not add up to 100% because of multiple responses.

RESOURCE

They Fire CEOs, Don't They?

MOST BOOKS ABOUT venture capital are incredibly clinical. They cover topics such as pricing and the composition of boards, with barely a nod to the skirmishes that sometimes break out between company founders and their venture investors. In *Nothing Ventured* (Harper Business, 1990), Robert J. Kunze, a veteran San Francisco venture capitalist, portrays the venture game with all its blood and tension. He wrote it, he tells us, "to demystify the process."

Kunze is at his best when telling dramatic stories about real companies. In one, a business becomes embroiled in a struggle between its stubborn founder, who wants to have his own production plant, and investors, who want him to use the money for other things. In another, we learn about an industrial-instrument company that gets stymied by a patent suit yet somehow manages to hang on by its fingernails—for two years. In both cases, Kunze describes his role in getting the founding CEOs ousted.

Kunze demystifies venture capital.

Firings over breakfast, feelings of betrayal: not all the tales Kunze tells are uplifting. But if you want to see venture capital for what it is and what it's not, Kunze illuminates it well.

—B. G. P.

DATA SERVICES

Bank Watching

HOW DO YOU KNOW when your bank is slipping toward the brink? If you want to be vigilant, consider ordering information from one of the many services that specialize in bank evaluation. Listed below are some oriented toward corporate clients:

• **Cates Consulting Analysts**, Washington, D.C., 202-659-8300. Drawing on federal bank data, Cates tracks about 2,000 of the country's 12,000 or so banks. Its quarterly reports evaluate earnings, liquidity, asset quality, and capital adequacy. For $110 a year per bank (less for information on more than 10 banks), you get a report with a one- to two-page summary, the quarterlies, and phone access to the firm's analysts. For $50 you get a one-shot summary.

• **Federal Financial Institutions Examination Council**, Washington, D.C., 202-357-0177. If you prefer your data straight (without the commentary), you can order one of the federal government's Uniform Bank Performance Reports. A 13-page report on every federally insured bank is generated by computer every quarter. The price is $40 per bank. For an additional $25, you'll get a guide to interpreting the reports; for another $60 you can get a report that compares your bank with its peers.

• **Thomson BankWatch**, New York City, 212-510-0300. Thomson's premium service, which is available for the 450 biggest banks worldwide, costs $100 per U.S. bank and $200 per international bank per year. BankWatch gives you quarterly reports as well as a direct line to trained analysts. If you're interested in one of the thousands of smaller institutions, Thomson has a more basic service. For $50 per bank, you'll receive a two-page synopsis of an

PHOTOGRAPH: JOHN SEAKWOOD. CHART: ROSS CULBERT LAVERLY & RUSSMAN INC., NEW YORK

institution's ratios and peer comparisons.

• **Veribanc**, Wakefield, Mass., 617-245-8370. Veribanc's computers spit out color-coded reports on any bank, savings and loan, or credit union within days of the release of quarterly federal data, but the analysis is sketchy. For $10 you can get a rating over the phone ($3 for additional banks). A 50-page research report costs $45 per bank. For $110 Veribanc offers a report that rates every bank in a single state.

• **Weiss Research**, West Palm Beach, Fla., 407-684-8100. Priding itself on being more conservative than other rating services, Weiss sets very stiff "safety" standards that many banks don't meet. Its six-page reports cost $45 each; phone ratings are available for $15.

—Researched by Chris Caggiano

ACQUISITIONS

Striking a Better Deal

If you're angling to buy a business but can't meet the seller's price, there may be a way to structure a transaction that makes everyone happy. Consider using a "covenant not to compete." Here's how it works:

Say the seller wants a total of $5 million when he gets ready to sell his business. Offer him $4 million for the business and, in addition, $1 million in a covenant not to compete (a legal agreement that keeps him from selling the same products in the same market area for a specified number of years). The advantage is that the covenant is a deductible expense. (Typically, it can be amortized over five years.) If you want further deductions, consider giving the seller a multiyear consulting contract for services rendered, the cost of which can be treated as a deductible expense.

"In the wake of the tax reforms of 1986, these are among the most attractive tools left for taking a write-off on the money paid out for buying a business," says R. Paul Sprague, CEO of Warwick Group, a New York City investment-banking firm. *—B. G. P.*

Sharpen your competitive edge with first-rate customer service.

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Item No. 50017. 58 minutes. VHS
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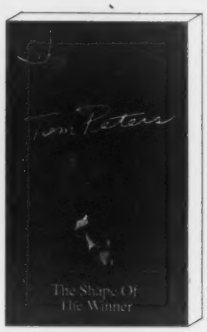

He electrified the business community as co-author of *A Passion For Customers*. He started a management revolution in *Thriving On Chaos*. Now Tom Peters presents his unique "focus on the customer" message developed specifically for Inc. readers.

Peters reveals the 10 essential traits that separate winning companies from their less innovative competitors. Peters' back-to-basics approach to customer service and innovation can mean the difference between success and failure.

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Purchase copy. Item No. 10880. $495.00 + $20.00 shipping, 7% IL sales tax

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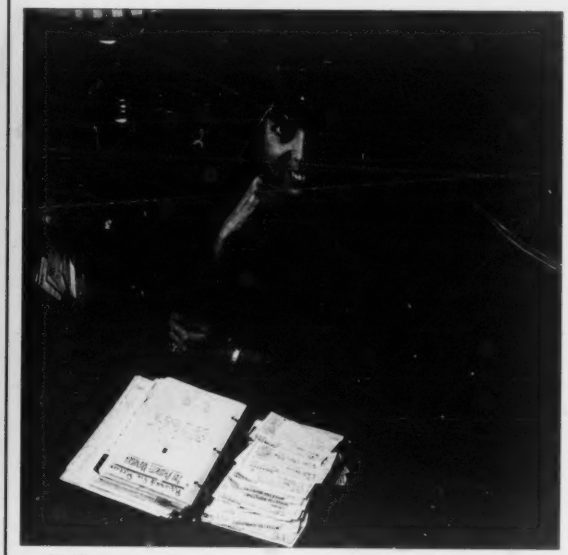
Inc. VIDEOS

FINANCIAL STRATEGIES



Williams uses key-man insurance to protect her company.

INSURANCE

Protecting Against Executive Losses

KATHLEEN WILLIAMS DIDN'T THINK TWICE ABOUT key-man insurance when she cofounded Business Investigations, in Plano, Tex., nearly six years ago. "I didn't have the money to think about it," she recalls.

But a couple of years later, when her company was growing "at a monstrous rate" and she approached bankers for a line of credit, they provided her with a list of key employees she needed to insure. In complying with their requirements, she says, "I started thinking about how to use key-man insurance to protect our own needs. Now it's not just a question of being able to check off the right box on a loan application. I wouldn't do business without it."

To prepare for her annual board of directors meeting, she conducts her own informal analysis of the value to the company of each of her 100-plus employees. "There are some people my bankers don't require me to insure who are invaluable to our growth and profitability. So we buy key-man insurance on them as well," she says. In all, the company

(Continued on next page)

ESTATE PLANNING

When Living Trusts Make Sense

ODDS ARE, IF YOU'VE thought about estate planning, someone has suggested you set up a living trust. It's a way of avoiding the time and cost of probate, since any assets that have been transferred into a living trust during one's lifetime are passed along automatically, after the donor's death, to his or her designated beneficiaries without any of the hassles of probate court. And there's no loss of control, since donors can name themselves as trustees while retaining the right to revoke or cancel the trust at any time.

Despite the advantages, Steven Enright, a River Vale, N.J., financial adviser, warns that living trusts are often misused.

"If you and your spouse own assets jointly and you're planning to leave your assets to your spouse, there's no need for one, since such assets don't pass through probate," he says. "Or if you put some, but not all, of your assets in the living trust, the benefit is limited, since the rest of the assets will have to pass through probate."

But living trusts may be helpful when estates of significant size (at least $1.2 million) are passed between generations. "The trusts won't produce any estate-tax savings, but they might save time and complications, which could be valuable if the estate includes shares in a business," says Enright. In such cases, coordinate the design of your living trust with the rest of your estate plan and expect to pay an extra $500 to $1,000 in legal fees.

—J. A. F.

RESOURCES

Cash-Flow Software

Tough economic times bring out the need for well-monitored cash flow, and the products to help. Two worth considering:

• Up Your Cash Flow. An appealing software package whose best feature is a forecasting element that can alert CEOs to potential bottom-line effects of changes in the economy. It's available for PC compatibles for $99.95 from Granville Publications Software, at 800-873-7789.

• Forest & Trees. A pricier, more comprehensive software package ($495). It offers the ability to customize the screen with views of business data, updating various financial aspects. Available for PC compatibles from Channel Computing, at 800-289-0053.

—J. A. F.

IN THIS SECTION

PROTECTING AGAINST EXECUTIVE LOSSES
Using key-man insurance

RESOURCES: CASH-FLOW SOFTWARE

WHEN LIVING TRUSTS MAKE SENSE
The dos and don'ts

HOW TO DESIGN AN EXPORT INVOICE
Advice from a veteran exporter

PROFIT SHARING THAT WORKS
All are equal in the profit pool

Edited by Jill Andresky Fraser

PHOTOGRAPH: DANNY TURNER

(INSURANCE, from page 135)
carries policies on 6 key employees, including Williams.

In deciding whom to cover, Williams considers two financial issues:

1. Replacement cost. "This may or may not be close to a person's actual salary," Williams says. "To come up with a realistic number, contemplate a worst-case scenario where you had to find and pay someone else who could actually fulfill all this person's functions within the company."

2. Possible revenue losses. "You can't look just at the salary you're paying a person. She may earn $50,000, but if something happened to her, the company might lose sales of $300,000," she says. So even though the bank doesn't require it, she buys insurance on her executive vice-president of marketing and sales: "She's a competitive advantage for us. I don't care if the bank knows it or not.

"In a growing company, every person's value and contribution is constantly changing," says Williams, who evaluates the payout levels of each key-man policy annually. "With some people, you need to increase the insurance levels as sales grow, whereas with others, as their departments grow and they share corporate responsibilities, you may want to reduce coverage levels." Since policies change frequently, consider using annually purchased term life policies for key-man coverage. Rates vary according to a person's age and health but are generally quite affordable.

A corporate valuation can help quantify how much key-man insurance you'd need to buy out an executive's stock at today's market value. But when purchasing coverage Williams prefers to rely on her own instincts about each person's worth to her company: "If you know your executives, you can make a pretty good guess about how their loss would affect the business financially—either in jobs you couldn't perform or sales you wouldn't make." *—J. A. F.*

INTERNATIONAL BUSINESS

How to Design an Export Invoice

ANYONE INVOLVED IN the export market knows sales invoices can result in endless collection problems unless they're designed to comply with business practices in the customer's country. Michael Plumley, CEO of Plumley Cos., in Paris, Tenn., a manufacturer of rubber goods for the automobile industry, knows that all too well. His goal is to design a sales invoice that will work with 80% to 90% of the export orders he ships to Japan, Germany, France, Australia, Canada, Mexico, and Great Britain.

Plumley believes his only chance of success is to tap into the hands-on knowledge of his employees from various departments, all of whom have encountered the unique characteristics of each export market. Among the employees he consults:

• **Customer-service and shipping representatives.** "Duty regulations differ in every country," Plumley says. "If a company wants to keep costs down, it has to figure out how to ship and invoice goods so it complies with those different rules." Case in point: Germany. "If we ship different products at the same time but list them on different manifests, we have to pay higher duties than if they were consolidated on a single manifest."

• **Credit manager.** There aren't any universal paperwork standards, even within particular countries. The challenge is to find out what foreign customers need from invoices.

• **Sales manager.** Every salesperson involved in export is a resource for tips on foreign customers' invoicing needs. "If we know about needs in advance, we can address them when we send out the invoice, and we won't have to wait until problems develop on the collection end." *—J. A. F.*

ADVISERS

How Do You Use Your CPA?

IN AN INFORMAL SURVEY OF COMPANIES WITH SALES BETWEEN $4 MILLION AND $20 MILLION, *Inc.* found that CPAs provide a wide—and sometimes unexpected—range of services to entrepreneurs. One surprise: of the group we contacted, more than 85% of the CEOs preferred working with smaller regional accounting firms, rather than the Big Six, because of lower costs and what they perceived as better personal attention.

Company	How often does CEO consult CPA?	What's CEO looking for in a CPA?	How often has company switched CPAs?
Coastal Production Service Operates oil & gas platforms	Once a month	Audit proficiency, so CEO chose a firm that employs a former IRS auditor	Twice
UniLink Software Software developer	Weekly	Computer literacy, since CEO specially tailors his cash-flow and other financial statements	Never
Pro-Tech Industries Manufacturer of truck parts	Quarterly	Ability to analyze numbers quickly, especially during expansion activities	Never
Vance International Protective services	Quarterly	Red-flag warnings on issues like insurance costs or financial ratios	Twice
Roadshow Services Theatrical-transportation management	Once every two months	"Reality checks" to keep fast-growing company's profit and other margins in line	Twice

—Researched by Susan Greco and Christopher Caggiano

INCENTIVES

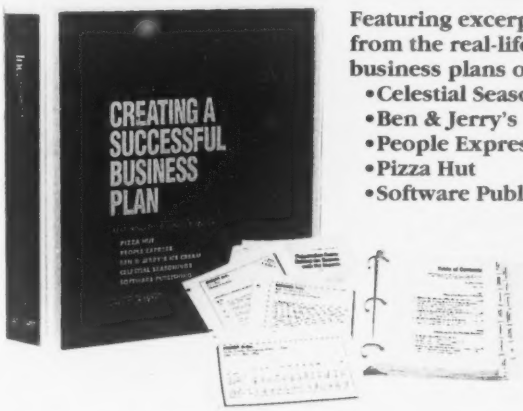
Profit Sharing That Works

MANY CEOS FEAR THAT FORmalizing a profit-sharing arrangement with employees would rob their businesses of capital and, ultimately, stunt growth. But to Richard Dapson, president of Anatech, a supplier of chemicals to hospitals, profit sharing is the fuel behind his Battle Creek, Mich., company's 25% yearly growth rate.

At Anatech, profit sharing takes two forms: cash bonuses, which range from .75% to 2.0% of pretax profits, whenever there is a profit; and retirement-savings contributions equal to 10% of each person's wages plus bonus, paid by the company into a simplified employee pension (SEP) plan. Below, some tips from Dapson on how to tailor profit-sharing plans to motivate employees:

- **Make frequent contributions.** Anatech pays its bonuses and SEP contributions monthly. "Because the rewards are tied to current performance, people keep track of sales each day, so they can see if they'll get those bonuses," Dapson says.
- **Keep plans simple.** One priority of Dapson's was to make the connection between corporate results and individual rewards simple enough for everyone to understand. "I wanted people to be able to calculate while they're doing their jobs that if sales go up by *x*, their next bonuses will add up to *y*," he says.
- **Don't attach strings.** Because he felt confident about having designed an attractive compensation scheme, Dapson didn't set up a prolonged vesting schedule to tie employees to the company.
- **Be fair.** At Anatech, even part-time workers participate in the profit-sharing plans once they've worked for the company for several months. Fair sharing is so ingrained that when Dapson and his two partners reward themselves with extra bonuses, they write extra profit-sharing checks for their employees as well. *—J. A. F.*

Business Success Begins With This Step-By-Step Guide.



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Inc. BOOKS

IN THE OFFICE

ILLUSTRATION J. SCOTT CAMPBELL

OFFICE EQUIPMENT

Low-priced, High-Tech Telephoning

SOPHISTICATED TELEPHONE-ANSWERING SYSTEMS, through which callers can buy stocks or get train schedules by merely pressing a number on a keypad, have until now been the province of voice-mail systems that run hundreds of thousands of dollars. But the technology is now so miniaturized in both size and price that it can be embraced by small businesses and sole proprietors as well.

Easily installed in an ordinary desktop computer, budget-end interactive answering systems cost hardly more than household answering machines. Yet they not only possess superior voice fidelity, but in many functions are as versatile as any switchboard. For a few hundred dollars plus a microcomputer, you can have voice mailboxes just like the big-ticket versions. What would a modest enterprise do with so clever a contrivance? Here are a few illustrations:

1. Establish two-way dialogues with customers or vendors, using discrete codes that access exclusive material.

2. Deliver spoken information at a specified time.

(Continued on next page)

WORKPLACE

From Office to Factory Floor

IF OFFICE WORKERS get fresh flowers, *you* get them too, CEO Chet Giermak promised line workers at Eriez Magnetics, a $55-million industrial-equipment manufacturer in Erie, Pa. The notion was greeted with blue-collar snickers. But once bunches of chrysanthemums started arriving regularly, the people on the floor took to them as positively as they had taken earlier to fine art hung on the walls, nameplates placed at workstations, and windows opening to the same landscaped outdoor views that upstairs executives were granted.

Mums were the latest inspiration in Giermak's determined crusade to close the quality-of-work-life gap between the company's 110 employees in engineering and sales, and its 145 factory employees. "I'm not saying everyone should have the same perks," he argues, "but I am saying that there are certain perks everybody should have." Hence production people, long since relieved of punching time clocks, also enjoy such white-collar advantages as long coffee breaks and access to corporate supplies for personal use.

Giermak shrugs off the extra and decidedly unconventional costs as mere "pocket money." No wonder: unexpected absenteeism at Eriez is one-eighth the industry norm, and Eriez has practically no turnover—attributable, claims Giermak, to gaining equal respect from all 255 workers. ***—Teri Lammers***

RESOURCE

The Economy of Ecology

American businesses flush more than a billion gallons of fresh water down the toilet every working day and throw out 15 million plastic toner cartridges every year. Those and four dozen more sordid facts of 9-to-5 life have been collected in *50 Simple Things Your Business Can Do to Save the Earth* (EarthWorks Press, Berkeley, Calif., 1991), a slender paperback enumerating the number of trees, gallons of oil, cubic yards of ozone, and so on, that industry squanders.

The point is to persuade industry not to. Contributors describe specific corrective steps and also analyze each recommendation's dollar return. For example, a toilet-water-saving device pays for itself in 13 months; a refilled toner cartridge is about half the price of a new one. The suggestions are simple and really will save the earth—at least that part of it Exxon and Monsanto haven't gotten to. *—R. A. M.*

IN THIS SECTION

LOW-PRICED, HIGH-TECH TELEPHONING
Interactive systems are within reach

FROM OFFICE TO FACTORY FLOOR
Companywide quality of work life

RESOURCE: THE ECONOMY OF ECOLOGY

DODGING FRAUD
Forgery-proof business forms

WHAT TO DEMAND OF TRAVEL AGENTS
How do they stack up?

Edited by Robert A. Mamis

(OFFICE EQUIPMENT, from page 139)

Say you leave for Europe on a 7 a.m. flight and need to reach someone who won't be available until you're over Greenland. Solution: First record the message. Then at a designated minute the system will dial on its own, wait for a pickup, ask for your party (in case someone else answers or there's a switchboard), establish a connection to the right person with the right password, then speak on your behalf.

3. Advise traveling salespeople about out-of-stock situations. No longer does a rep about to close a deal need to get his warehouse clerk for assurance of delivery; the rep can listen directly to the warehouse's own inventory reports.

4. Divide responses into branches to help the caller reach the desired area of information. A retailer, for instance, could pitch daily specials on one branch and new products on another, then debrief resultant phone orders at leisure.

5. Place one in an office-at-home adjunct. Then adapt the tactic described in (2) above, setting the system to call your office at a designated time—say, during a boring meeting from which you'd like to be excused.

The setup is simple. The hardware consists of a plug-in board that fits inside a computer (which needn't be exclusively devoted to running the system). The telephone is attached via a standard phone-jack, and the software self-installs. It's best to have a capacious hard disk, since five minutes of talk requires a megabyte of storage. ***—R. A. M.***

THE PLAYERS IN THE PHONE GAME

THERE ARE THREE MAJOR players at the low-price end of the voice-messaging industry. All require IBM PCs. (None run on Apples.) Below is a summary of their offerings:

NATURAL MICROSYSTEMS
NATICK, MASS.
508-650-1300 OR
800-533-6120
Starter unit offers internal modem, automatic redial, appointment calendar, and voice-dictation modes ($249); add-on handles caller responses based on touch-tone replies ($200). Other systems accommodate from 2 to 48 incoming lines, at prices that range from $1,395 to $36,000.

THE COMPLETE PC
SAN JOSE, CALIF.
408-434-0145 OR
800-634-5558
Starter unit offers voice mail, sequential dialing, automatic redial, forwarding, etc. ($399). Complete unit includes all of the above plus fax, fax-forwarding capability, data modem, and a port for a scanner ($699).

TALKING TECHNOLOGY
ALAMEDA, CALIF.
415-652-9600
Starter unit costs $295. Add-on module designed for telemarketing is $99.

TWO RESELLERS INCORPORATE The Complete PC boards in their offerings:

FYI SYSTEMS
SAN DIEGO
619-276-5000 OR
800-833-6611
Includes The Complete PC board in its Work Smarter package ($699).

DAK INDUSTRIES
CANOGA PARK, CALIF.
800-325-0800
Through mail order. To find out how these PC-based voice-mailbox systems work, dial 800-456-9678. If a man answers, don't hang up; it's DAK's own Drew A. Kaplan—recorded for that purpose.

SECURITY

Dodging Fraud

A BILLION DOLLARS' worth of fraudulent checks were cashed last year, many of them via simple electronic alteration of office-printed documents. That's the estimate of Washington, D.C., consultant Frank Abagnale, and he ought to know, having personally forged $2.5 million worth before the feds put a stop to a brilliant career. Indeed, rues Abagnale, "color copiers and scanners have made it 10 times *easier* today."

Now on the right side of the law, Abagnale advises corporate America on how to protect against felonious schemers like his old self. One result: business-forms manufacturer Standard Register has added safeguards. Among them:

- Paper embedded with artificial watermarks so faint they cannot be copied.
- Numerical fonts with distinct shapes said to be impossible to modify.
- A colored background that disappears—replaced by the letters V-O-I-D—when the check is tampered with.
- Chemically treated toner that inseparably bonds laser-printer ink to paper.

For more information on fraud-prevention products, ask for the specialty-products department at Standard Register, at 513-443-1000.

—R. A. M.

BUSINESS TRAVEL

What to Demand of Travel Agents

EVERY DAY BUSINESS-people fly on scores of airplanes in thousands of seats at dozens of prices determined by hundreds of travel firms. The gap between how a corporate-travel agency could perform and how it does can be wide—and costly. Here are eight questions to evaluate how your agency stacks up.

1. What is the agency's revenue? Agencies grossing less than $10 million a year don't wield enough clout to wheedle favorable treatment from airlines; agencies that bring in more than $60 million don't bother to. The willingness and ability of a middle-ground agency to forge special deals can save clients as much as

IN THE OFFICE

40% *beyond* everyday discounts.

2. What support do the agency's up-front people receive? Negotiating favorable seat prices is a constant-vigilance mission that requires backup staff, a non-revenue-producing expense many agencies are loath to assume. An acceptable ratio is one support person behind each selling agent.

3. Where's our free ticket? To interest agencies in out-of-the-mainstream flights that otherwise would be chronically underbooked, carriers tender rewards for booking them. Often the favor is complimentary tickets—for the agency, not the flier. A responsible agency passes them along.

4. Is the agency biased toward certain carriers? Agencies can earn lucrative overrides (percentage points added to the standard 10% commission) by funneling business through only one or two airlines. A responsible agent should spread business among several carriers.

5. Does the agency have an automatic low-fare finder? If it doesn't, you aren't automatically being quoted the best available price. A diligent agency electronically scours the system for price breaks half a dozen times a day.

6. How does the agency's average discount compare with retail? Against list prices, every agency appears a discounting genius. The better measure is against Lowest Logical Business Fare—the three- to seven-day advance-purchase price that even you could obtain.

7. How carefully does the agency monitor its individual sellers? Computer surveillance to prevent innocent overpricing is a minimum safeguard. An agency ought to employ a quality-control manager as well.

8. What quid pro quos can a business expect for volume purchasing? More than a million dollars' worth of air travel a year ought to bring you your own agent-in-residence; several hundred thousand dollars' worth should entitle you to a satellite ticket printer on the premises. *—R. A. M.*

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The Nature Conservancy

Conservation Through Private Action

Original concept courtesy of Lewis & Partners, San Francisco

THE INC. NETWORK

FERTILITY RIGHTS

Earl Fredrickson has obtained marketing rights to a computer-managed fertility monitor. He asked how he could best market it to OB/GYN doctors, and whether he should sell or lease it (The Temperature's Rising, June).

Better results for patients and a new source of revenue for the practice will get a doctor's attention. That's what Mr. Fredrickson should stress in his marketing. Because infertility treatment isn't well covered under most health-insurance plans, the cost will come directly from the patient. The potential profits from rentals are huge. All of that will go nowhere, though, if Fredrickson can't point to clinical trial results showing his technology's superiority.

Jeffrey J. Denning
Management Consultant
Practice Performance Group
Long Beach, Calif.

FAMILY AFFAIR

As he and his wife approach retirement age, Louis Lorenz has to find a buyer for the business that has been in his family for 80 years. He wants someone who will carry on traditions, and he's afraid the business-opportunities pages or a business broker will expose him to "get-rich-quick" types (We Are Family, May).

If Mr. Lorenz has met potential successors but hasn't been able to make up his mind, he should consider bringing those candidates into the company to help out, either part-time or full-time. That way he can see how they interact with employees. Mr. Lorenz should also recognize that someone may really care about his business but may set goals for it that are different from his.

I hope Mr. Lorenz is sincere in his wish to carry on the family tradition, and recognizes the price he may pay. More than once I have made an offer to buy a business, have been told that the owner and employees agreed I was the candidate most likely to carry on traditions, and then have seen

NEW QUERIES

Sometimes the most unusual Network questions elicit the smartest responses—take a look at this month's tips on marketing fertility monitors. The letter we received from a would-be exporter of classic cars may therefore find an expert to answer it. If you're not such a specialist, there are more general questions concerning credit lines and business plans, plus the very sensitive problem discussed in the first letter below.

VOICING DOUBTS

My mail-order business sells laptop and notebook computers and peripherals. As a minority, I try to give my employees, most of whom are also minorities, the break they need. And I reward them all, regardless of position, with commissions for every order they take over the phone. But I'm afraid we may be losing sales because most of our employees have very strong accents and some difficulty with English. Some customers have canceled their orders, saying they cannot do business with vendors "who don't speak English." Yet those same employees happen to be more hardworking, knowledgeable, and efficient than those I hired who had good speaking voices. If I did find the right employee and asked the others to avoid answering the phone, I'm afraid I'd court trouble for my company. Please help.

Manny O. Manapat
President
Tote-a-lap
Foster City, Calif.

STUCK IN TRAFFIC

Our company is starting to market remanufactured classic cars of the '50s and '60s, and we'd like to export cars to Western Europe, Asia, and South America. We have investigated traditional channels—the Department of Commerce, world-trade centers—but progress has been slow. Can anyone recommend alternatives?

Carey M. Berg
President
CMB Associates
Brooklyn, N.Y.

WHERE CREDIT'S DUE

My home-furnishings store has been open for 16 months and showed a profit in its first year. I have an excellent credit record and a good relationship with my bank. Still, I can't get good credit lines. I have one line of credit with a factor because the manufacturer agreed to work on recourse, but most refuse to do that. Another manufacturer asked for a letter of credit from my bank, but the bank says I have too little equity. Any ideas?

Theresa Mink
Owner
Leather Gallery
Austin

FACTORY REHAB

How do I locate U.S. companies that are outsourcing? We're a small, nonprofit rehabilitation facility that prepares injured workers to return to their jobs. As part of our program, we run a factory for recuperating workers. We're trying to find companies that outsource packaging, mailing, shrink-wrapping, drill-bit sharpening, and so on.

Bob Schmidt
Sales and Marketing Manager
Betty Jane Memorial Rehabilitation Center
Tiffin, Ohio

A MAN WITHOUT A PLAN

Can anyone recommend a good book or pamphlet on writing a business plan?

Jeff Weinstein
President
J.L. Enterprises
Brooklyn, N.Y.

the owner turn around and sell the business to a higher bidder. And that happened in small midwestern cities, far from the "get-rich-quick" types Mr. Lorenz fears.

Edward W. Eick
Consultant and Owner
Reliable Motor Supply
Grand Rapids

LICENSED TO BILL

Working as a government engineer, Gregory C. Hildebrand invented several high-tech devices that he can now license to private industry. He's not sure, though, how to put a price on the dollars saved and the capabilities gained with his products (Government Issue, June).

Available accounting techniques can reduce those intangibles to a reliable royalty base denominated in dollars. A running royalty with periodic payments proportioned according to use gives the licensee some incentive to arrive at an accurate measure of use.

The cost of licensing work will probably be a bigger problem for Mr. Hildebrand, especially if each of his licenses includes different terms. He could ask each licensee to pay the cost. Or he could draft a skeleton agreement containing terms common to all deals and then ask each licensee to fill in the blanks. Mr. Hildebrand could then simply scrutinize the supplied terms to make sure they're reasonable.

Michael J. Ure
Patent Attorney
Arlington, Va.

Please send your words of advice to The* Inc. *Network, 38 Commercial Wharf, Boston, MA 02110, or call our reader response line,* 800-444-1756. *Or fax your letters to* 617-248-8090. *We'll publish the best responses and queries.

RESOURCES

FRANCHISE BLUES

I purchased a franchise that failed miserably. I think the franchisor was partly to blame. The service representative who should have conducted marketing and demographic studies was unavailable, so a marketing rep conducted them instead, and the results were simply population statistics. Also, the franchisor chose a location in an underdeveloped neighborhood at the wrong end of town. After 10 months of operations, sales were running less than 20% of the franchisor's projections. Can I recover any of my investment?

Name Withheld

If the franchisor made earnings claims outside of the prospectus, either orally or in writing, you have grounds to seek a recision—the return of your out-of-pocket money, less any money you made—or you may sue for breach of contract. The standard for recision is willful fraud, and that may also be grounds for punitive damages. Whether you can recover your money is a question of proving how much you relied on the franchisor's statement, whether it was false, and whether damages can be traced to that omission or misstatement of fact.

Can you sue just because somebody else found the real estate? Michael Seid, a franchise consultant, doubts it. "Most franchisors don't decide on the location. When you read the agreement, you may find you made the final approval."

Your problem is that you did all your preparation *after* the business failed. That's not unusual, according to Seid. It's also not unusual to face problems early on. Bev Karmanos, whose American Speedy Printing shop, in Tallahassee, Fla., was chosen by *Inc.* as one of America's best-managed franchises (October 1989), didn't break even for almost a year. "We had some very lean times," she says. "And it had *nothing to do* with the franchisor." But she and her husband were prepared for those times. You could have been, too.

"Franchisors want to sell you a franchise," says Seid. So you must find out as much as you can *before* you talk to them. Visit their franchises, research them in business magazines, and contact the International Franchise Association (800-543-1038). It sells a *Franchise Opportunities Guide* for $15, and a pamphlet of basic information called *Investigate Before Investing* for $5.

Then visit the company headquarters; it's worth the price of a plane ticket, Seid says. Arrive with a list of questions, "and don't be satisfied with glib answers. Ask about training and advertising, and get details. Is the franchisor making money? Is there a franchisee association? Who does the demographics? If it's supposed to be Joe Schmidlap, and some regional guy who's not a specialist does them instead, say, 'Whoa, this is my investment!' "

The disclosure document that franchisors have to supply you with will provide some answers, but don't leave it at that. You'll also get a list of established franchisees. "Pick up the phone," Seid says. "Franchisees like to brag about their businesses." Ask how much it really cost them to get into business, how long it took to break even, how much they're making, and whether they'd buy another franchise today.

Fred DeLuca, president of the Subway Sandwiches & Salads franchise, agrees. "Interviews with franchisees are the single most important step." He suggests that prospective franchisees talk to at least 10 franchise owners—local and national—to find out if the corporate literature jibes with their experience.

When choosing a location, the franchisor's numbers should be only the start of your research. "I wouldn't bank my money on those numbers," Bev Karmanos says. Instead, get your own. "You can't expect the franchisor to do everything," she notes. Even franchisor DeLuca downplays demographics as the sole basis for site selection. Franchisors can research concepts or regions, he says, but when it comes to choosing a location, you have to look at the place and trust your judgment. "If you rely on the company to make those decisions, you're not being a businessman."

—Michael P. Cronin